

# **Report of the auditor-general to the Gauteng Provincial Legislature and the council on City of Johannesburg Metropolitan Municipality**

## **Report on the consolidated and separate financial statements**

### **Introduction**

1. I have audited the consolidated and separate financial statements of the City of Johannesburg Metropolitan Municipality and its entities as set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2016, the consolidated and separate statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the consolidated and separate financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the

consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the City of Johannesburg Metropolitan Municipality and its entities as at 30 June 2016 and its consolidated and separate financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Significant uncertainties**

8. As disclosed in note 51 to the consolidated and separate financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured; therefore no provision for any liabilities that may result has been made in the annual financial statements.

## **Restatement of corresponding figures**

9. As disclosed in note 52 to the consolidated and separate financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 30 June 2016 in the consolidated and separate financial statements of the City of Johannesburg Metropolitan Municipality and its municipal entities for the year ended, 30 June 2016.

## **Material impairments**

10. As disclosed in note 10 to the consolidated and separate financial statements, the receivables balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R10 601 368 000 (2014-15: R10 338 028 000) which represents 63% (2014-15: 67%) of total consumer debtors. The contribution to the provision for debt impairment was R2 658 759 000 (2014-15: R3 279 937 000).

## Material losses

11. As disclosed in note 44 to the consolidated and separate financial statements, material electricity losses to the amount of R2 260 114 000 (2014-15: R2 606 873 000) were incurred which represents 23.1% (2014-15: 29.2%) of total electricity purchased. Technical losses amounted to R906 280 000 (2014-15: R828 953 000) and were due to distribution losses. Non-technical losses amount to R1 353 834 000 (2014-15: R1 777 920 000) and were due to theft, bypass of meters, illegal de-calibration of meters and damaged meters.

## Irregular expenditure

12. As disclosed in note 56 to the financial statements, irregular expenditure incurred in the current year could not be fully quantified for the reasons stated.

## Transfer of function

13. As disclosed in note 65 to the financial statements, the initial accounting of the transfer of function was incomplete as at 30 June 2016 and the assets acquired from the transfer of function were recognised at provisional amounts.

## Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Unaudited supplementary schedules

15. The supplementary schedules set on pages ... to ... do not form part of the financial statements and is presented as additional information. I have not audited those schedules and accordingly I do not express and opinion thereon.

## Unaudited disclosure note

16. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Programme 1: Sustainable services cluster on pages xx to xx
  - Programme 2: Economic growth cluster on pages xx to xx
  - Programme 4: Good governance cluster on pages xx to xx
19. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPi)*.
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. The material findings in respect of the selected programmes are as follows:

### **Programme 1: Sustainable services cluster**

#### Reliability of reported performance information

22. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the evidence provided.

### **Programme 2: Economic growth cluster**

#### Reliability of reported performance information

23. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the evidence provided.

### **Programme 4: Good governance cluster**

#### Reliability of reported performance information

24. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against

planned targets of important indicators were not reliable when compared to the evidence provided.

## **Additional matters**

25. I draw attention to the following matters:

### **Achievement of planned targets**

26. Refer to the annual performance report on pages ... to ... for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs ... to ... of this report.

### **Unaudited supplementary schedules**

27. The supplementary information set out on pages ... to ... does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

### **Adjustment of material misstatements**

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 1 – Sustainable services, Programme 2 – Economic growth and Programme 4 – Good governance cluster. As management subsequently corrected only some of the misstatements, I identified material findings on the reliability of the reported performance information.

## **Compliance with legislation**

29. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Procurement and contract management**

30. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
31. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

32. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
33. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
34. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
35. Sufficient appropriate audit evidence could not be obtained that measures to combat the abuse of the SCM system were implemented as per the requirements of SCM regulation 38(1).

### **Consequences management**

36. Unauthorised, irregular, and fruitless and wasteful expenditure incurred by the municipality was not fully investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
37. Council did not always approve the terms of reference of each investigation as required by municipal regulation on financial misconduct procedures and criminal proceedings 6(1).

### **Annual financial statements**

38. The consolidated and separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Expenditure management**

39. Reasonable steps were not taken to prevent unauthorised, fruitless and wasteful and irregular expenditure, as required by section 62(1)(d) of the MFMA.

### **Strategic planning and performance management**

40. The annual performance objectives and indicators of the Metropolitan Trading Company SOC Ltd were not established, as required by section 93B (a) of the MSA.

### **Human resource management**

41. The municipal manager did not sign a performance agreement, as required by section 57(2)(a) of the MSA.



## **Internal control**

42. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

43. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with legislation. Senior management did not implement sufficient monitoring controls to ensure that financial and performance reporting information is credible at all times and that the municipality complies with legislation.

## **Financial and performance management**

44. The administrative leadership did not keep documents and records in a manner that ensures that complete, relevant and accurate information is accessible and available to support financial and performance reporting in time. Non-compliance with the MFMA, MSA and SCM regulations could have been prevented had compliance been properly reviewed and monitored.

## **Governance**

45. The accounting officer and the applicable governance structures did not ensure effectiveness of internal audit function and that the assessment of controls is conducted frequently to appropriately address significant deficiencies and repeat findings.

## **Other reports**

46. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that either are in progress or have been completed.

## **Investigation**

47. One hundred and thirty-three cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated during the financial year. The municipality's forensic department investigated the majority of these cases internally.

48. Of these, twenty-four have been completed, six were closed due to lack of evidence and the remainder are at either the planning or the execution phase.

*Auditor General*  
Johannesburg

31 December 2016



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